THE MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003:

STABILIZING & STRENGTHENING EMPLOYER-SPONSORED HEALTH COVERAGE

Background:

Currently, one-third of all Medicare beneficiaries receive prescription drug coverage from their former employer. However, as health care costs continue to rise, employers are feeling the strain, forcing beneficiaries to shoulder a larger portion of their health care costs, reducing coverage, or foregoing generous retirement coverage for newer workers. Increased premiums, cost-sharing requirements, and out-pocket-spending limits all characterize this trend. Unfortunately, analysts expect this trend to continue with employers changing benefits or eliminating prescription drug coverage altogether, particularly for newer hires. This is an important issue as it affects current retirees, active employees who will be retirees, and companies themselves.

Most beneficiaries report that they are generally satisfied with their retiree health coverage and Therefore do not want to lose it. For this reason, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-173) takes the necessary steps to improve the Medicare program *and* stabilize retiree health coverage. **Marking the first time in the history of the program, Medicare will strengthen the safety net for millions of retired seniors, enabling all to enjoy affordable retiree health benefits.**

How Will the Law Make a Difference?

It is important to remember two key facts. The trend toward reduced retiree coverage has been occurring for years, well in advance of the new Medicare law. The new law takes significant steps to try to reverse or slow this trend. Additionally, because of the new Medicare drug coverage provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, retirees will not be without needed prescription drug coverage even if their former employer does not offer prescription drug coverage.

The law contains **an unprecedented $88 billion** to help encourage and stabilize retiree health coverage. The non-partisan Congressional Budget Office (CBO) reports that the new law will help prevent an even greater number of retirees from losing their health coverage than either of the Senate or House passed Medicare bills. For example, consider the following improvements:

1. Employers will now receive a tax-free subsidy for 28 percent of drugs costs between $250 and $5,000.
2. Employers maintain flexibility to design plans, so that they may continue to offer health care coverage.
3. If employers choose to enroll retirees in a Medicare prescription drug plan, they may negotiate lower premiums and offer premium and cost-sharing assistance.
4. Retiree health plans are exempted from the Medicaid "best price" provisions, so that they are not subject to artificial limits on drug discounts and may negotiate greater discounts from pharmaceutical manufacturers.
5. Removes barriers for generic pharmaceuticals to enter the marketplace, so that both employers and beneficiaries may access safe, effective, low-cost alternatives.

In December 2002, the Henry J. Kaiser Family Foundation surveyed 435 large private-sector firms, which employ 1,000 or more employees and currently offer retiree health benefits. The survey's findings echo the need to strengthen the safety net for America's retired seniors. For example, 8 in 10 employers expect to ask retirees to pay more for their health coverage, as they estimate total retiree health costs increased 16% between 2001 and 2002 alone. More than 80% expect to increase retiree premiums and 85% plan to raise prescription drug copays or coinsurance over the next three years. It is imperative to note that the large majority of employers said they are likely to continue offering prescription drug coverage even if Congress enacts a comprehensive Medicare prescription drug benefit. To read this study, please visit the Henry J. Kaiser Family Foundation online at www.kff.org.